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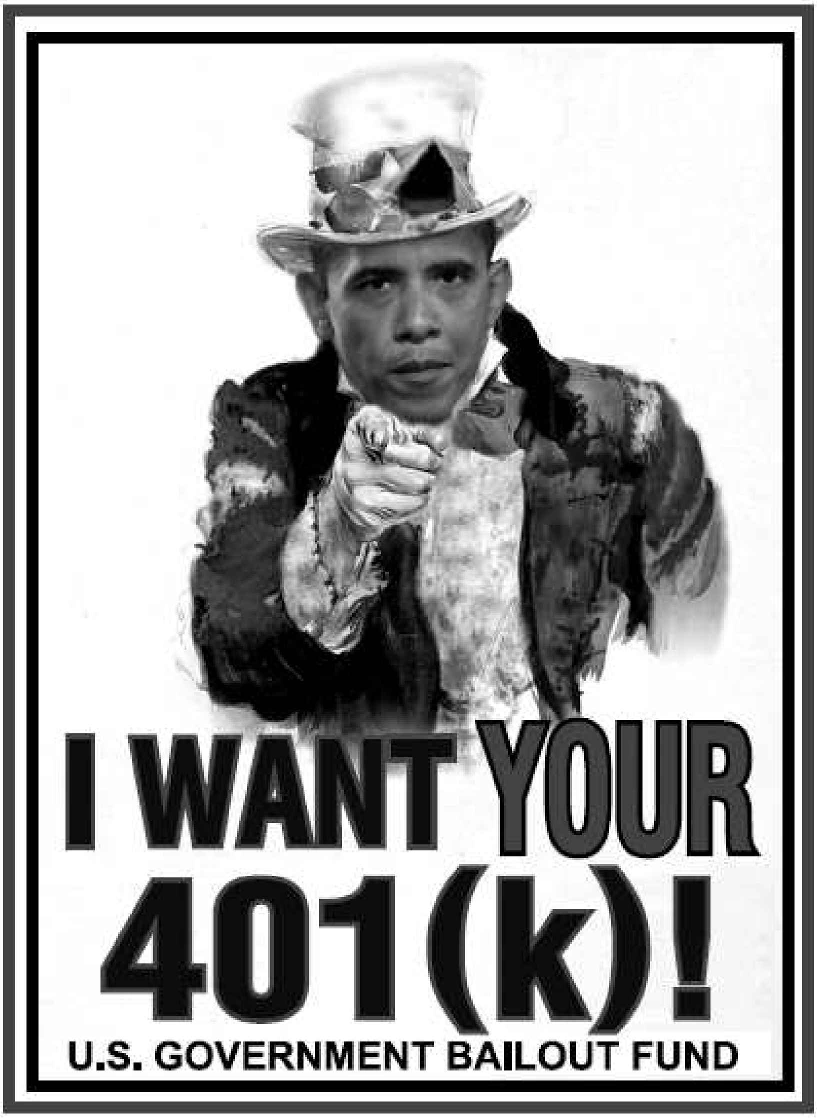
The Obama Administration's Secret Plan to Hijack Your 401(k)s and IRAs



The Obama Administration's Secret Plan to Hijack Your 401(k)s and IRAs

It’s no secret that the federal government has been growing and growing year after year – and at an accelerated pace under the administration of Barack Obama – even as the private economy has contracted. The government has experienced no cutbacks to speak of, no pain, no consequences.

But it has a very serious problem. It can’t sustain itself – let alone keep growing – on the back of the existing tax base.

Source: USDebtClock.org (April 23, 2010)

The government is getting by, for now, on the generosity of (mostly foreign) buyers of U.S. sovereign debt and on the ability of the Federal Reserve to carry out currency and bond market manipulations.

Unfortunately for the inside-the-beltway elitist spendthrifts, even establishmentarian, suck-up-to-power credit reporting agencies such as Moody's have been forced to publicly acknowledge that Uncle Sam's critically-important “AAA” credit rating is hanging by a thread and will soon have to be revised downward.

Foreign buyers of skyrocketing U.S. debt – the biggest of which are China and Japan – are increasingly balking at buying the growing flood of U.S. Treasury bonds needed to keep the government's doors open. (Even the liberal-leaning **Washington Post** warned on April 7, 2010 that bond buyers are now seeing “lending to Uncle Sam as a riskier proposition than lending to blue-chip firms.”)

The solution to the government’s financial woes, as certain powerful politicians see it, is *not* to have Washington live within its means. No, the solution is to “raise revenue” by any means necessary – borrowing it, printing it, and, yes, even stealing it.

When governments get desperate for money, they scheme to change the incentives and rules to milk more money of out of private wealth holders. Sometimes, in a financial “crisis,” they move with deliberate speed to seize assets outright.

That was the case in Argentina recently. The Heritage Foundation reported on October 31, 2008:

This week Argentina's leftist president, Christina Kirchner, announced she would move forward with her plan to seize the nation's private pension funds. Kirchner claims government seizure of the funds is needed to protect Argentinians from the global market crisis. But most observers believe her real motive is to use the $30 billion in seized assets to ease the massive debt obligations her leftist spendthrift government has run up.

<u>The biggest source of heretofore largely untapped revenue for U.S. politicians is private retirement accounts. Some 60 million American households own and control 401(k) retirement funds valued at around $4 trillion. Including 403(b)s, IRAs, Health Savings Accounts, and all other vehicles through which Americans hold retirement assets, the total runs to $15 trillion</u>.

So what are the *actual* chances of a 40l(k)/IRA asset grab? It may not happen as suddenly as in Argentina, but a piecemeal approach appears to be very likely. The prerequisites are already being readied for implementation.

IRA and 401(k) De-Privatization Plans: More Than an Obama Wish-List Item

Every crime has a motive. It's not *just* ideology but practicality that drives our ruling politicians to seek control over large pools of private wealth. The harsh reality of national insolvency is forcing this danger to the forefront.

Washington is readying confiscatory revenue-raising subterfuge because the funding crisis for Social Security is no longer something that can wait to be dealt with years down the road. The crisis is starting to unfold now. As the **New York Times** acknowledged, "*This year, the system will pay out more in benefits than it receives in payroll taxes, an important threshold it was not expected to cross until at least 2016, according to the Congressional Budget Office*." The trickle of red ink will soon become a flood under the pressure of 78 million retiring Baby Boomers.

The herding of the investing public into investments of the government's choosing has begun. As Bob Chapman of **The International Forecaster** explains, "*The looting of retirement plans is still in the planning stage, and you're seeing these trial balloons go up*."

For example, in a little-noticed move, the Federal Deposit Insurance Corporation (FDIC) recently launched a campaign to "encourage" (as **Bloomberg** put it) pension funds to make investments in "distressed assets" tied to failed or failing banks. Since the FDIC is undercapitalized by tens of billions of dollars and is bracing for hundreds of bank failures, its motivation seems pretty clear: get retirement plans to help prevent, defer, or absorb huge losses in the banking system.

The U.S. Treasury and Labor Departments have already introduced proposed regulations (CFR, Part 1, RIN 1545-BJ04) to alter investment incentives for fund managers to begin pumping money into government-approved "investments." Assistant Labor Secretary Phyllis C. Borzi and Deputy Assistant Treasury Secretary Mark Iwry are specifically spearheading an effort to promote the conversion of 401(k) and IRA assets into annuities (see February 2, 2010 **Federal Register** document, next page).

Proposed Rules

Federal Register
Vol. 75, No. 21
Tuesday, February 2, 2010

This section of the FEDERAL REGISTER contains notices to the public of the proposed issuance of rules and regulations. The purpose of these notices is to give interested persons an opportunity to participate in the rule making prior to the adoption of the final rules.

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

RIN 1545–BJ04

DEPARTMENT OF LABOR

Employee Benefits Security Administration

29 CFR Parts 2509, 2520 and 2550

RIN 1210–AB33

Request for Information Regarding Lifetime Income Options for Participants and Beneficiaries in Retirement Plans

AGENCY: Employee Benefits Security Administration, Department of Labor; Internal Revenue Service, Department of the Treasury.

ACTION: Request for information.

SUMMARY: The Department of Labor and the Department of the Treasury (the "Agencies") are currently reviewing the rules under the Employee Retirement Income Security Act (ERISA) and the plan qualification rules under the Internal Revenue Code (Code) to determine whether, and, if so, how, the Agencies could or should enhance, by regulation or otherwise, the retirement security of participants in employer-sponsored retirement plans and in individual retirement arrangements (IRAs) by facilitating access to, and use of, lifetime income or other arrangements designed to provide a lifetime stream of income after retirement. The purpose of this request for information is to solicit views, suggestions and comments from plan participants, employers and other plan sponsors, plan service providers, and members of the financial community, as well as the general public, on this important issue.

DATES: Comments must be submitted on or before May 3, 2010.

ADDRESSES: You may submit written comments to any of the addresses specified below. Any comment that is submitted to either Agency will be shared with the other Agency. Please do not submit duplicates.

Department of Labor. Comments to the Department of Labor, identified by RIN 1210–AB33, by one of the following methods:

- *Federal eRulemaking Portal: http://www.regulations.gov.* Follow the instructions for submitting comments.
- *E-mail: e-ORI@dol.gov.* Include RIN 1210–AB33 in the subject line of the message.
- *Mail:* Office of Regulations and Interpretations, Employee Benefits Security Administration, Room N–5655, U.S. Department of Labor, 200 Constitution Avenue, NW., Washington, DC 20210, Attention: Lifetime Income RFI.

All submissions received must include the agency name and Regulation Identifier Number (RIN) for this rulemaking. Comments received will be posted without change to *http://www.regulations.gov* and *http://www.dol.gov/ebsa,* and made available for public inspection at the Public Disclosure Room, N–1513, Employee Benefits Security Administration, 200 Constitution Avenue, NW., Washington, DC 20210, including any personal information provided. Persons submitting comments electronically are encouraged not to submit paper copies.

Internal Revenue Service. Comments to the IRS, identified by REG–148681–09, by one of the following methods:

- *Mail:* CC:PA:LPD:PR (REG–148681–09), Room 5205, Internal Revenue Service, P.O. Box 7604, Ben Franklin Station, Washington, DC 20044.
- *Hand or courier delivery:* Monday through Friday between the hours of 8 a.m. and 4 p.m. to: CC:PA:LPD:PR (REC–148681–09), Courier's Desk, Internal Revenue Service, 1111 Constitution Avenue, NW., Washington, DC 20224.
- *Federal eRulemaking Portal: http://www.regulations.gov.* Follow the instructions for submitting comments (IRS REG–148681–09).

All submissions to the IRS will be open to public inspection and copying in Room 1621, 1111 Constitution Avenue, NW., Washington, DC from 9 a.m. to 4 p.m.

FOR FURTHER INFORMATION CONTACT: Stephanie L. Ward or Luisa Grillo-Chope, Office of Regulations and Interpretations, Employee Benefits Security Administration (EBSA), (202) 693–8500 or Peter J. Marks, Office of Division Counsel/Associate Chief Counsel (Tax Exempt and Government Entities), Internal Revenue Service, Department of the Treasury, at (202) 622–6090. These are not toll-free numbers.

SUPPLEMENTARY INFORMATION:

A. Background

The Agencies are issuing this request for information in furtherance of their efforts to promote retirement security for American workers. The Secretary of Labor's overarching vision for the work of the Department of Labor is to advance good jobs for everyone. Good jobs provide wages that support families, and rise with time and productivity. Good jobs also provide safe and healthy working conditions. Finally, good jobs, no matter the type or income level, provide retirement security. Consistent with these objectives, the Department of the Treasury strives to promote economic growth, stability, and economic security, including retirement security, for American workers, and oversees the federal tax expenditures for retirement savings and security.

Retirement security is provided to many workers through defined benefit pension plans sponsored by their employers. Employers that sponsor defined benefit pension plans are responsible for making contributions that are sufficient for funding the promised benefit, investing and managing plan assets (as fiduciaries), and bearing investment risks because the employer, as plan sponsor, is required to make enough contributions to the plan to fund benefit payments during retirement. In addition, when the defined benefit pension plan pays (or offers to pay) a lifetime annuity, it provides (or offers to provide) protection against the risk of outliving one's assets in retirement (longevity risk).

Department of Labor data, however, show a trend away from sponsorship of defined benefit plans, toward sponsorship of defined contribution plans. The number of active participants in defined benefit plans fell from about 27 million in 1975 to approximately 20 million in 2006, whereas the number of active participants in defined

The March 9, 2010 edition of **BusinessWeek** notes that new federal regulations designed to "*promote the conversion of 401(k) savings and Individual Retirement Accounts into annuities or other steady payment streams*" would help drive cash into government-controlled entities such as American International Group (AIG), which was bailed out to the tune of $182.3 billion. AIG, in turn, will almost certainly follow its benefactor's desire to direct any private retirement monies it receives into "safe" government-approved investments – especially U.S. Treasury bonds, which are becoming harder and harder to sell to skeptical buyers.

Jerome R. Corsi of **WorldNetDaily** reports:

> *The Investment Company Institute, a national trade organization representing the mutual fund industry, argues that the distinction of the Obama administration proposal would be to require annuities funded with Treasuries to be embedded within IRAs and 401(k) programs, using the fear of loss as a reason to demand retirement investors own Treasuries.*

Cash-Desperate Washington and Network of Powerful Leftists Scheme to Gain Control over Americans' Retirements

As the government's finances continue to deteriorate, cash-desperate federal officials are engineering a scheme to herd and ultimately force 40l(k) and IRA holders to "merge" into a government-managed retirement system. Retirement account de-privatization is being advanced by the powerful Ford and Rockefeller Foundations, key Congressional leaders, influential leftwing think tanks, and Vice President Joe Biden's White House Middle Class Task Force.

The 40l(k)/IRA de-privatization plan is the brain-child of one of the left's rising stars, the bright and inventive leftwing academic Teresa Ghilarducci. While Ghilarducci insists 40l(k)s will still be "legal" under her plan, the thrust of her idea was revealed on a 2008 radio interview in which she said, "*I'm just rearranging the tax breaks that are available now for 40l(k)s and spreading – spreading the wealth*..."

Ghilarducci is hardly an isolated left-wing crank with a bad idea. She cut her political teeth in the Clinton Administration as an advisory board member of the now-insolvent Pension Benefit Guaranty Board. Tellingly, Ghilarducci is also a "public trustee" to the health care plan for UAW retirees of General Motors. Or put another way, Ghilarducci was in the thick of the battle when "Team Obama" ripped off GM's private investors by turning over their shares to the United Auto Workers union bosses.

Funded by the Rockefeller Foundation, Ghilarducci's think tank (the Schwartz Center for Economic Policy Analysis – SCEPA) is an Obama Administration front group to grease the political skids to make 40l(k) nationalization a reality. (For the next time a financial crisis – or rather, opportunity – presents itself.) SCEPA's website touts the involvement and support of the White House Middle Class Task Force.

The Ghilarducci Plan Exposed

In a 2009 research paper, Ghilarducci declared "*Guaranteed Retirement Accounts [GRAs] are like universal 401(k) plans except that the government, as befits a large and enduring institution, will invest and manage the pooled savings*." That's because, as the professorial Ghilarducci believes, "*Humans often lack the foresight, discipline, and investing skills required to sustain a savings plan*." (Of course, that analysis of "humans" would *not* apply to left-leaning PhDs, members of Congress, and bossy bureaucrats – who somehow are endowed with the skills needed to manage everyone else's investments.)

Ghilarducci touts her proposed accounts as enabling everyone to avoid stock market risk and still earn guaranteed inflation-beating returns. She would have you believe that the government can magically guarantee that the money under its control will earn a 3% annual return on top of inflation. The notion that anyone can guarantee sizable inflation-beating gains in perpetuity with zero downside is a naive fantasy at best. It's probably more accurately described as a canard put out to hoodwink the gullible public.

The government could conceivably create dollars out of thin air to make good on promises denominated in fixed dollars. But paying out promises denominated in ever-increasing purchasing power on the scale proposed by Ghilarducci is an impossible task to pull off given the government's financial condition and the magnitude of the existing obligations that are already going to be impossible for the government to pay in constant, non-depreciated dollars. The inescapable conclusion: Any "inflation adjustment" on Guaranteed Retirement Accounts will be a *total sham*.

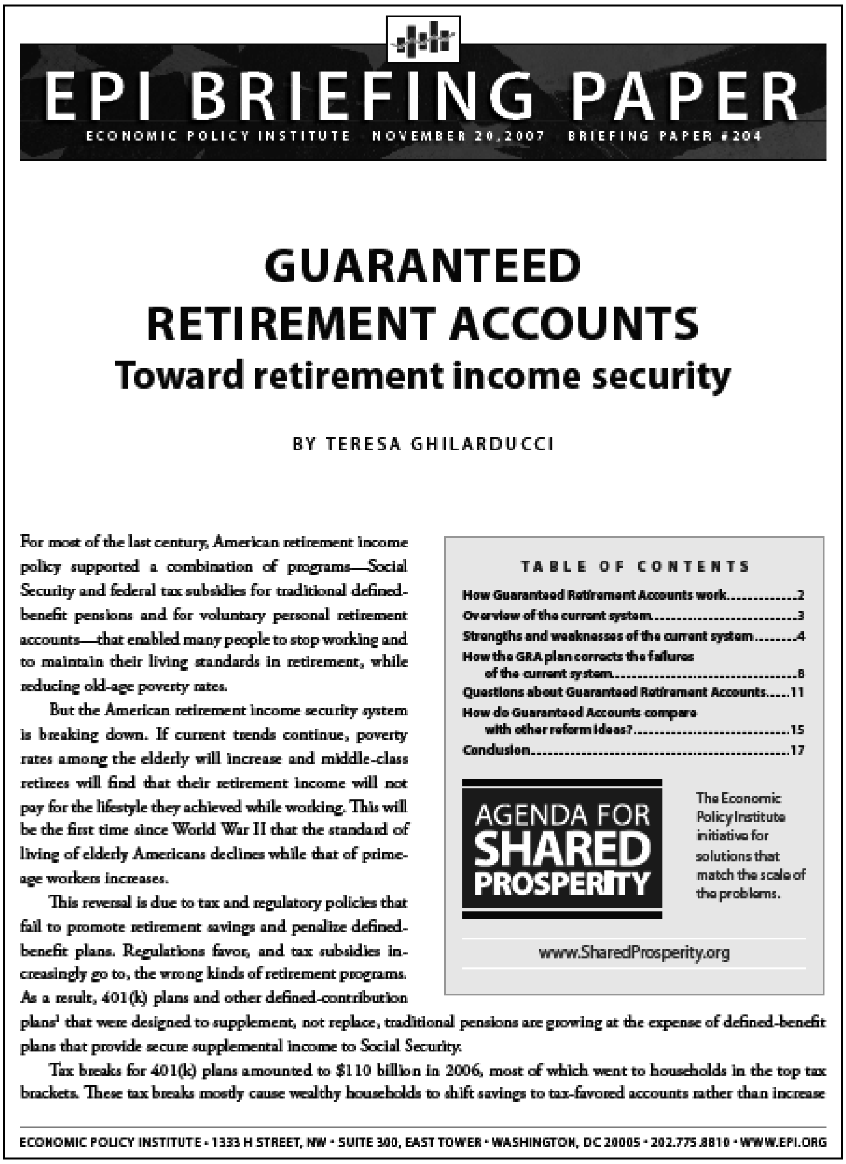
Under the Ghilarducci Plan, 50% of your GRA automatically goes to the government upon your passing, not your heirs. And that's just for starters. Future tax deferments to 401(k)s and IRAs would be scrapped in exchange for a supposedly guaranteed 3% annual real return.

Backers of government-controlled accounts stress that 401(k)s will still be "legal" under her plan – yet if 401(k)/IRA tax advantages are removed, employers will no longer have a financial incentive to offer them at all. (All part of an active "herding" process to force private retirement funds into government-approved "investments.")

John Belluardo, President of the Stewardship Financial Services in New York, notes: "*A lot of people contribute to their 401(k) because of the match of the employer… if the tax deferral goes away, the employers will have no reason to do the matches, which primarily help people in the lower income brackets…*"

By making 401(k)s and IRAs unattractive vehicles for investing, the government is setting things up to make "converting" over to a government-run Guaranteed Retirement Account your best "choice."

But as Karl Denninger of the Market Ticker Website warns: "*Choices have a funny way of turning into mandates, and this looks like a raw admission that Treasury knows it will not be able to sell its debt in the open market – so they will effectively tax you by forcing your 'retirement' money to buy them.*"



EPI BRIEFING PAPER

ECONOMIC POLICY INSTITUTE NOVEMBER 20, 2007 BRIEFING PAPER #204

GUARANTEED RETIREMENT ACCOUNTS
Toward retirement income security

BY TERESA GHILARDUCCI

For most of the last century, American retirement income policy supported a combination of programs—Social Security and federal tax subsidies for traditional defined-benefit pensions and for voluntary personal retirement accounts—that enabled many people to stop working and to maintain their living standards in retirement, while reducing old-age poverty rates.

But the American retirement income security system is breaking down. If current trends continue, poverty rates among the elderly will increase and middle-class retirees will find that their retirement income will not pay for the lifestyle they achieved while working. This will be the first time since World War II that the standard of living of elderly Americans declines while that of prime-age workers increases.

This reversal is due to tax and regulatory policies that fail to promote retirement savings and penalize defined-benefit plans. Regulations favor, and tax subsidies increasingly go to, the wrong kinds of retirement programs. As a result, 401(k) plans and other defined-contribution plans[1] that were designed to supplement, not replace, traditional pensions are growing at the expense of defined-benefit plans that provide secure supplemental income to Social Security.

Tax breaks for 401(k) plans amounted to $110 billion in 2006, most of which went to households in the top tax brackets. These tax breaks mostly cause wealthy households to shift savings to tax-favored accounts rather than increase

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AGENDA FOR SHARED PROSPERITY

The Economic Policy Institute initiative for solutions that match the scale of the problems.

www.SharedProsperity.org

ECONOMIC POLICY INSTITUTE • 1333 H STREET, NW • SUITE 300, EAST TOWER • WASHINGTON, DC 20005 • 202.775.8810 • WWW.EPI.ORG

Above: One of the policy blueprints for government-controlled retirement accounts, in which author Teresa Ghilarducci describes individually controlled tax-advantaged accounts as "the wrong kinds of retirement programs."

Fact Check:
Proposed Accounts Would Take Wealth, Individual Control Away

A January 2010 article, "Prepare Now to Escape Obama's Retirement Trap," by writer Ron Holland is worth quoting at length here:

Although the historical government solution to unsustainable government debt loads has always been the destruction of the debts by currency depreciation and eventual hyperinflation, there is always an intermediate step used to buy more time for the politicians in power. This action, usually side-stepped and downplayed by the establishment historians paid to hide the real facts of history, is wealth confiscation…

The largest source of liquid private wealth remaining in the United States is the $15 trillion in private retirement funds. The ultimate ownership, control and future of these funds has already been compromised and exchanged for the favorable tax treatment of private retirement plans. Congress writes the laws, so they can tax, penalize, hold your funds hostage and, although they'd never use the word 'confiscate,' use your assets at their discretion.

The Annenberg Public Policy Center's non-partisan FactCheck.org put out a piece aiming to *debunk* claims that congressional Democrats are exploring options to "confiscate" private retirement accounts. Yet in doing so, FactCheck.org conceded that the plan presented to Democrats in committee hearings by Teresa Ghilarducci "*would force all workers to save 5 percent of their annual income in a new type of retirement vehicle, which she calls a Guaranteed Retirement Account*."

Well, you can call it a "tax" or a "forced contribution" if you prefer not to call it "confiscation." Whatever you call it, coercively taking away 5% of all citizens' income amounts to a huge appropriation of wealth from private to government hands. The 5% hit on Americans' paychecks will surely reduce private retirement account balances as people are left with less take-home pay. Moreover, tax advantages such as deductibility for IRAs and 401(k)s will be pared down or eliminated (to help fund subsidies for GRAs for lower-income workers). For starters, a $5,000 annual cap on deductible contributions would be imposed under the Ghilarducci plan.

As FactCheck.org noted, Ghilarducci's proposed accounts "*could not be controlled by workers like IRAs and 401(k) assets, but would instead be deposited with the government. Workers could not touch the money until retirement, she says, and even then the savings could not be drawn out any way workers might desire, but would be converted to an annuity…*"

"No You Can't"

Most Americans have little saved for retirement. According to the Employee Benefit Research Institute's 2010 Retirement Confidence Survey, nearly half (43%) of American workers have less than $10,000 saved in retirement accounts. That might help supplement Social Security for a few months, but it won't last much longer than that even on a meager retirement. Tens of millions of Americans nearing retirement face poverty and/or total dependence on government.

Advocates of government accounts say they merely want to "help" Americans (with a coercive push) save more so that they are better equipped to retire. "*The biggest problem with 401(k)s in general is that the contributions into the 401(k) are voluntary*," Ghilarducci incredibly told **US News**, with the obvious implication that brute force is the solution. "*Because the employee puts the money in it, employees think of it has a savings account for hardships,*" she complained.

As Ghilarducci indelicately put it in an interview with **Money**, "*The only answer, and this is after 25 years of looking at it, is to make people save: a mandatory, universal savings plan on top of Social Security… For those in top brackets, income tax will go up – but so will their retirement security, because even if you're tempted to stop saving, the government is saying, 'you can't*.'"

"No you can't" is apparently the new "Yes we can." In actuality, the proposed 5% debit from Americans' paychecks would leave them less able to save, while putting their retirements at greater risk. Since individuals would have no say over asset allocation within the government accounts to which they would be forced to contribute, no ability to access the funds (except through a government-approved annuity upon retirement), and little or no ability to pass on the accounts to heirs, such so-called accounts cannot be called "savings" in any meaningful sense of the term.

Government retirement accounts would make millions of retirees *entirely* dependent on government to release their retirement income in the form of GRAs and Social Security. Betting everything on government promises and guarantees is a dangerous investment strategy – especially when considering the government's precarious and worsening financial condition.

Once ordinary, everyday investors' money is under the control of a "universal" government-controlled annuity, massive amounts of fresh private capital can be redirected into government bonds, which are getting harder and harder to sell to *willing* buyers.

Prudent investors diversify into different types of asset classes (stocks and bonds both foreign and domestic, precious metals, etc.). Under a nationalized retirement system, prudent investing would be largely only something the rich could undertake – as the working poor and middle class would have overwhelming proportions of their limited disposable income consumed by Social Security taxes and mandatory contributions to the centrally planned retirement system. If the government's finances collapsed, so would their retirements.

<u>Of course, it's more a question of *when* the government's unsustainable finances will collapse</u>.

A Coalition of Far-Left Ideologues is Organizing to Nationalize Your Retirement Money

The left-dominated House Education and Labor Committee's 2008 hearings have already "vetted" and prepared model regulatory and legislative language to revoke some $80 billion in annual tax-advantages for 401(k) and IRA contributors. Reps. George Miller (D-CA) and Jim McDermott (D-WA) are working behind the scenes with groups spearheading the effort for government accounts and are pushing Congress to consider ways of "redirecting" existing tax breaks for private accounts back to the government.

As Rep. Miller put it, "*We're going to have to do something about the tax deductibility of contributions to people's 401(k)s because government's losing money. We're losing money on this!*"

Among the major groups working with members of Congress to agitate for a nationalized retirement system is Retirement USA (a coalition backed by rabidly pro-Obama AFL-CIO and SEIU union officials and well-funded and well-connected left-leaning think tanks). This coalition is grubbing for Americans' retirement money.

A key organizing player in the 40l(k) de-privatization movement, Retirement USA, makes the brazen objectives of the Ghilarducci Plan explicit in a document entitled "Principles for a New Retirement System." A few highlights follow:

- "Retirement should be the shared responsibility of employers, employees, and the government."
- "A new retirement system that supplements Social Security should include all workers unless they are in plans that provide equally secure and adequate benefits" (as determined by bureaucrats, who would of course frown upon defined-contribution plans that allow individuals to choose their own investments).
- "Employers and employees should be required to contribute a specified percentage of pay, and the government should subsidize the contributions of lower-income workers."
- "Contributions to the system should be pooled and professionally managed" (undoubtedly with the stipulation that a large portion of workers' forced contributions be invested in Treasury securities – voluntary demand for which the government has lately had a tough time garnering in sufficient quantities).

White House Task Force Explores Ways to Meddle in and Commandeer Retirement Accounts

Ghilarducci and others associated with these radical schemes are directly involved in Obama's new Middle Class Task Force, chaired by Vice President Joe Biden. The **Annual Report of the White House Task Force on the Middle Class** (February 2010) lays out some of the ways the government will begin to herd Americans into qualified retirement plans and government bonds:

> President Obama has already announced, and this Administration has begun to implement, a series of common-sense measures to help workers save for retirement. These include:
>
> - Making it easier for small businesses to help their employees save by automatically enrolling their workers in a 401(k) or a "SIMPLE" individual retirement account plan.
> - Making it easier for people to save their Federal tax refunds by letting them choose to receive their refund as a savings bond that can be deposited into IRAs or bank accounts.

Elsewhere in the report, it is suggested that Americans be promised the impossible – risk-free "inflation protection" from the same government that has for years been rigging the inflation data to try to keep Social Security and related costs in check:

> All workers… should also have an easy way to put a portion of their savings in a safe, inflation-protected investment choice. While Treasury Inflation-Protected Securities (TIPS) and I Savings Bonds offer this kind of protection… some have suggested the creation of Guaranteed Retirement Accounts (GRAs), which would give workers a simple way to invest a portion of their retirement savings in an account that was free of inflation and market risk, and in some versions under discussion, would guarantee a specified real return above the rate of inflation.

There's no mention of gold or silver as part of workers' defenses against inflation and market risk. Workers would be herded into government bonds and/or GRAs backed by nothing but government promises.

Backdoor Tactics

IRA and 40l(k) rule changes are being readied as an "emergency funding option" for when the government's insolvency crisis can no longer be papered over. Larry Grossman, managing director of Sovereign International Pension Services (727-784-4841; www.sovereignpensionservices.com), is warning his clients that nationalization of private retirement accounts is coming.

Grossman notes that the Federal Deposit Insurance Corporation (FDIC) is in the process of auditing all IRA custodians, singling out firms that offer offshore or "risky" investments to account holders. This will pave the way for a "Retirement Plan Czar" to intervene and impose extraordinary new regulations and costs on account custodians, which will limit IRA investment options for everybody and drive up costs. The government might then be in a position to dictate what types of investments IRAs *must* include, as it gradually takes them over.

In a piece that appeared in **Barron's,** Professor Edward F. McQuarrie highlighted five likely ways in which the government could diminish the value of your retirement account stash without even having to renege directly on the promise of tax-deferred retirement savings:

- Include "tax free" Roth IRA distributions in the definition of "modified adjusted gross income." This could, among other things, raise your taxes on Social Security benefits, increase the Medicare B costs you must bear, and expedite the phase-out of tax credits.

- Revoke the tax-free status of Roth IRA distributions after the death of the account holder and spouse. (Current law allows an inherited Roth to keep growing tax free.)

- Impose an excise tax on "excess" accumulations. If you've saved too much in retirement accounts – perhaps more than $1 million – the politicians would say you need to stop hoarding so much and take distributions.

- Set a deadline after which "excess" Roth IRA distributions – perhaps more than $100,000 a year – will be included in ordinary income and taxed. (Under current law, Roth distributions after age 59½ are not taxed at all.)

- Declare that all Roth accounts will revert to "traditional" accounts after a certain date. After that date, any further appreciation would be taxed in the normal way, once distributed.

The bottom line is that in the crisis environment in which the government will operate in the years ahead, the rules could be changed and sneaky maneuvers introduced to thwart the retirement plans of IRA and 401(k) holders.

Life Cycle Funds Enlisted to Help Generate Automatic Purchases of Government Bonds

Life-cycle funds were virtually non-existent just a few years ago. Now they're all the rage in company 401(k) plans. Such funds now constitute at least $400 billion in retirement plan assets, thanks in part to recent government "encouragement."

2007's Pension Protection Act incentivizes employers to *automatically* enroll employees in 401(k) plans. In November 2007, the Labor Department issued regulations about what types of funds would be permitted for the automatic herding of employees into retirement savings plans. Among them were life-cycle funds. Millions of Americans will be put into such funds without understanding them or even so much as offering their consent to divert part of their paychecks into them (though they can, for now, back out if they specifically request it).

Life-cycle funds adjust their holdings on a fixed schedule such that they become more and more "conservative" (meaning more bond-heavy) as the target retirement date approaches. For example, if you plan to retire in the year 2020, you could buy the T. Rowe Price Retirement 2020 fund (or a "2020 fund" offered by a different fund company). The fund will gradually rotate out of stocks and into bonds as 2020 approaches.

T. Rowe Price Retirement 2020 currently has about 75% of its assets in stocks and 25% in bonds and cash, but that proportion will fall substantially over the years. The fund will eventually "mature" with a fixed allocation of only 20% in stocks and 80% in fixed-income instruments. (No exposure to precious metals as a time-tested hedge against inflation and financial crises will ever be included.)

If enrollment of millions of Americans into life-cycle funds seems like an ideal way to stimulate increasing demand for U.S. Treasuries as the population ages, that point is undoubtedly *not* lost on U.S. officials who are promoting these one-size-fits-all investment vehicles.

Early Warning Signal: "Obamacare" Bill Targets Health Savings Account Holders

Ominously, Congress has quietly begun chipping away at the benefits of Health Savings Accounts (HSAs). Much like IRAs, HSAs are individually directed, tax-advantaged accounts that can be used to save for retirement. They can also be used to pay for medical expenses – or so HSA holders have long assumed.

One of the gimmicks used to "pay for" Obamacare in the 2,700-page legislation involves tinkering with Health Savings Accounts in a cynical one-two punch that prohibits a popular use for HSAs and boosts penalty revenue to the government when unwitting taxpayers use HSAs for non-approved expenses. Specifically:

- Beginning in 2011, HSA owners will no longer be able to withdraw money from their accounts penalty-free to purchase over-the-counter medicines.

- The penalty for making an unapproved withdrawal will be doubled to 20%.

Despite the petty new rules, HSAs have (for now) survived Obamacare mostly intact. But they are potentially only one new piece of legislation away from being dismantled completely. And that's exactly what leading Democrats admit they want to do when they are caught in moments of candor.

For example, at a 2006 news conference, the face of the Democrat-run Congress, Nancy Pelosi, went into a bizarre, hyperbolic rant against HSAs. "*I think Health Savings Accounts are very damaging and can lead to poor health for the American people*," she said. "*So I'm very, very vehemently opposed to them*."

Federal Healthcare Takeover Paves Way for Retirement Plan Takeover

The Obamacare bill was rammed through Congress using tactics that mocked the legislative process and the Constitution. <u>What most Americans don't yet realize is that this power grab will serve as a stepping stone for what could be *the biggest asset grab in history*: the nationalization of private retirement accounts</u>.

Although legislation to that effect has so far not been put forward directly by the Democrat leadership, it may only be a matter of time. Consider:

- Now that something as personal as one's health is no longer a private but a federal prerogative, what's to stop Congress from extending the collectivist principle to individuals' retirement plans?

- Now that it is compulsory to buy an expensive product from a private company (health insurance) loaded with features an individual doesn't necessarily need or want, what's to prevent politicians from mandating the purchase of annuities for retirement? Or FDIC-linked bank products? Or government bonds?

- Now that President Obama has demonstrated his willingness and ability to push through a massive partial takeover of one-sixth of the U.S. economy against the will of the majority of Americans, what will public outcry over coming government meddling in retirement plans do to cause the Wealth Redistributor in Chief to change course?

The answer to each of these questions may very well be: *absolutely nothing*.

Percentage of Americans who:

- ✓ Oppose an annuity mandate for retirement accounts: **71**
- ✓ Are confident 401(k)s can help meet retirement goals: **73**
- ✓ Oppose replacing private accounts with a government guarantee: **81**
- ✓ Oppose getting rid of 401(k) tax advantages: **88**
- ✓ Want to control their own accounts in retirement: **96**

Source: Investment Company Institute

The forced march of private investment dollars into public debt instruments is already underway in small, insidious ways. Buried deep in the recently-enacted Obamacare, for example, is a 3.9% tax on investment transactions – which applies to private-sector companies only. The upshot? Government Treasuries which are not subject to the investment tax suddenly become far more "attractive."

Time to Get Defensive – Here's How

The likelihood of Congressional tinkering with the rules on IRA and 401(k) plans to your detriment is something you should be preparing for. Congressional action aside, the Labor and Treasury Departments have *already* launched a process which is intended to steer retirement plan assets into government bonds and annuities – both of which could get clobbered by inflation.

<u>At this point, it would probably be premature to pull money out of retirement accounts for defensive purposes, especially in cases where: 1) you do have broad investment options within these accounts; or 2) where doing so gives the government the opportunity to exact a punitive 10% early withdrawal penalty. However, you should be prepared to adjust your strategy as circumstances dictate</u>.

For now, it's advisable to be cautious about making *new* contributions. Before you max out an IRA or 401(k), be sure you have some "emergency" retirement money in an untraceable, easily accessible form that is outside the purview of government. An obvious way to do it is through physical precious metals you store discreetly at home or in a secure storage facility. If the only way you can build an unencumbered precious metals position is by cashing out of an existing IRA or 401(k), then it might very well be worth doing right now.

Another defensive step is to consider converting a traditional IRA to a Roth. A Roth gives you the flexibility to make withdrawals of principal without incurring penalties. As such, Roth IRA contributions could serve as something of a lifeline in the event that the government starts stripping away your options for investing within IRAs or changes the rules on retirement distributions (by mandating the purchase of annuities backed by Treasury securities, for example – something the Obama administration is now just "encouraging").

The potential benefits of a Roth, including tax-free distributions (after a five-year holding period) the ability to avoid required minimum distributions, and estate planning advantages, must be weighed against the negatives associated with converting – the biggest being a likely up-front tax hit that could take more than a decade to recover. Taxes are imposed on the value of converted IRA assets for the purpose of essentially "undoing" any deductions you took when you made your contributions. Your actual tax due will depend on a number of factors, including your tax bracket, the performance of your investments, and the extent of any non-deductible IRA contributions.

In the past, we would have strongly recommended having some retirement money in an account held outside of the United States. While there are still many advantages to diversifying wealth overseas, recent bully tactics by the feds to try to gain access to the records held on U.S. customers by offshore financial institutions have constricted your options. Many foreign firms now refuse to deal with Americans. Even if you can get a foreign account opened, the days of it being "secret" are pretty much over.

You could try holding your IRA with a foreign custodian. It's certainly not a bad idea to have some money overseas. However, your ability to skirt U.S. regulatory attacks within an offshore IRA will be limited. Any assets held within an IRA are visible for government scrutiny, and any firm that acts as an IRA custodian agrees to be bound by the government's tax and reporting rules.

You'd be better off from a privacy standpoint (and possibly from a wealth-preservation standpoint, too) depositing untraceable precious metals or gemstones into a foreign safe-deposit box or storage facility in a secure, stable country such as Switzerland. It's not a strategy you need to invest all your retirement funds in. Rather, private precious metals ownership should be thought of as an insurance policy – something you hope you don't need, but something that could be a life-saver in the event that things go horribly wrong with retirement accounts in America.